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How a CIA front

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First of two articles

The president of a CIA front sought out the assistance of the White House staff in 1971 to influence the Treasury Department's handling of a critical tax issue involving billionaire Howard Hughes.

Today, more than five years after the CIA-connected organization intervened in the Hughes tax dispute, the

Treasury Department still has taken no action in the case — thereby enabling the business empire of the late Hughes to avoid payment of millions of dollars in federal income taxes.

The CIA front was Robert R. Mullen & Co., a Washington public-relations agency whose employees in places like Mexico City and Singapore and Amsterdam really were CIA agents. The company's most noteworthy executive, though, was E. Howard Hunt Jr., a former CIA agent who would later be convicted as a Watergate burglar.

In the summer of 1971, the Mullen company's president, Robert F. Bennett — the son of Wallace F. Bennett, then the Republican senator from Utah and an ardent supporter of President Richard M. Nixon — asked the White House to press for a favorable ruling in the Hughes tax case.

At the very same time that Robert Bennett was asking the White House for preferential treatment in Hughes tax troubles:

- The CIA was preparing for the construction of a specially-designed ship, the Glomar Explorer, to be

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aided Hughes

built and operated under a reported \$300 million-plus contract that the intelligence agency had awarded to the Hughes business organization.

- Bennett and his Mullen firm were creating scores of phony campaign committees on behalf of the Nixon White House in order to avoid federal gift taxes and to conceal a promised \$2 million in contributions from the American milk industry to President Nixon's re-election campaign.

And all the while that Bennett was asking the White House for tax fa-

vors for Hughes, and the White House was asking Bennett to establish paper election committees as a tax favor for contributors to President Nixon's upcoming campaign, E. Howard Hunt was working on other projects.

Hunt, a vice president of the Mullen company, was planning an assortment of extraordinary Nixon re-election activities — from the manufacturing of government documents to the burglary of a psychiatrist's office.

Here is how it all came together,

as found by The Inquirer during a continuing investigation into the Hughes organization and its relationships with the federal government:

Back in December 1953, Howard Hughes set up his own personal foundation, the Howard Hughes Medical Institute. Its purpose, according to Hughes, was "the promotion of human knowledge ... for the benefit of mankind."

Hughes transferred the stock of his wholly-owned Hughes Aircraft Co. to the medical institute, made the med-

(See HUGHES on 2-A)

HUGHES, From 1-A
cal institute responsible for the aircraft company's debts and appointed himself the sole trustee of his new charity.

Back to Hughes

In the years that followed, the medical institute — which was granted exemption from the federal tax laws by the Internal Revenue Service (IRS) — gave more money to Howard Hughes in the form of interest payments on a loan and real-estate lease payments than it spent on medical research.

Then in 1969, the Congress, reacting to charges that many foundations were merely tax dodges for the wealthy, enacted a massive tax reform package that included tougher provisions and more stringent regulations of tax-exempt organizations.

It was not until 1971, however, that the Treasury Department finally got around to issuing proposed regulations implementing the Tax Reform Act provisions for medical research organizations.

Under the proposed regulations, the Howard Hughes Medical Institute would have been required to sharply increase its expenditures for the charitable purposes for which it supposedly was set up, and at the same time sell a majority of its stock in Hughes Aircraft.

Those proposed regulations were published in the Federal Register in May 1971, and taxpayers who opposed their final adoption were invited to submit their objections to the IRS.

In June 1971, the Washington, D. C., law firm of Hogan and Hartson, which had long represented Hughes and his tax-exempt medical institute, sent a nine-page letter to the Internal Revenue commissioner protesting the proposed regulations.

Usual channels

The Hogan and Hartson attorneys lodged their formal objections by going through the traditional channels available to any citizen who objects to tax law regulations.

At the same time, though, Robert R. Mullen & Co., which handled Hughes' public relations in Washington, began working to change the regulations through channels not available to ordinary citizens.

On July 30, 1971, the president of the Mullen company, Robert F. Bennett, wrote a "Dear John" letter to

John W. Dean 3d, who was counsel to the president.

Wrote Bennett: "I am writing to call your attention to a situation with which I think you should become familiar."

Referring to a section of the proposed regulations requiring the Hughes charity to spend a fixed percentage of its assets each year on charity—a regulation imposed on other tax-exempt organizations such as the Rockefeller and Ford foundations — Bennett wrote:

"Howard Hughes Medical Institute lawyers were naturally upset and puzzled as to why Treasury would attempt to do this..."

Profits short

Bennett told Dean that the medical institute's sole source of income was the contributions it received from its stockholdings in Hughes Aircraft, and the aircraft company's profits fell short of the amount of money the institute would be required to spend under the proposed regulations.

Indeed, Bennett calculated that it was possible that Hughes Aircraft "would have to pay Howard Hughes Medical Institute more than it earns."

Bennett's assessment was more than a little misleading. At the time, Hughes Aircraft Co. was—and it re-

mains today—one of the nation's 10 largest defense contractors. Then, the company's annual sales were nearing the \$1 billion mark. Today they are pushing toward \$2 billion.

And as The Inquirer disclosed in a series of articles last December, entitled "The Silent Partner of Howard Hughes," the aircraft company had poured millions and millions of dollars into bad investments and projects designed to enrich Hughes executives—profits that could have gone to the medical institute.

In a low-key memorandum dated Aug. 4, 1971, White House counsel Dean passed along the four-page Bennett letter Charles E. Walker, under-secretary of the Treasury, with this comment:

"Attached is a letter I recently received from Bob Bennett, who I understand represents Howard Hughes in some of his Washington concerns. Could you please advise me of the status of this matter and provide an appropriate draft response to Mr.

Bennett."

Cool response

But Hughes' plight seemingly received little sympathy from Walker. In a coolly worded three-page memorandum to Dean, dated Aug. 17, 1971, Walker concluded:

"The Hughes group were aware of their problem at the time the 1969 Act was under consideration; either they were unable to obtain relief at that time or they chose to take the risk that we would issue regulations that would cover them..."

"We will give this matter every consideration before issuing the final regulations."

That Hughes received "every consideration" has since been well established by the record.

Although the Treasury Department did not rewrite the regulations, as suggested by Bennett, Treasury officials did the next best thing: They did nothing to enact their proposed regulations.

Four years went by, and then last December The Inquirer disclosed that the sweeping Tax Reform Act of 1969—an act hailed by Congress as a means of bringing an end to inequities in the nation's tax laws — had never been applied to the Howard Hughes Medical Institute.

Published regulations

The Treasury Department responded to The Inquirer series last February by publishing the long-dormant set of regulations covering medical research organizations — an act that has the effect of making the regulations law.

The regulations require an organization such as the Howard Hughes Medical Institute to spend substantially more on medical research than it had been spending.

The regulations also prohibit an organization such as the Howard Hughes Medical Institute — which owns 100 percent of the stock of Hughes Aircraft — from owning a controlling interest in a corporation.

But the regulations do contain a grandfather clause that will save the Hughes empire tens of millions of dollars.

Curiously, though, today, nine months after those final regulations were published by the Treasury Department and seven years after passage of the 1969 Tax Reform Act, the IRS has failed to require the Howard Hughes Medical Institute to comply with the act.

That the Treasury Department and the IRS fail to this day to apply the 1969 Tax Reform Act to Howard Hughes is especially interesting when viewed against a series of confidential White House memoranda written by Nixon aides who eventually would become deeply involved in the Watergate scandal.

Until he took over the Mullen public relations agency early in 1971, Bennett held a top-level job in the Department of Transportation.

When Bennett left the Nixon Administration, his new position at the Mullen company was quickly called to the attention of the President's staff. In a memorandum dated Jan. 15, 1971, Charles W. Colson, an aide to the President, wrote:

"Bob Bennett . . . has just left the Department of Transportation to take over the Mullen public relations firm here in Washington. Bob is a trusted loyalist and a good friend. We intend to use him on a variety of outside projects.

"One of Bob's new clients is Howard Hughes. I'm sure I need not explain the political implications of having Hughes' affairs handled here in Washington by a close friend . . .

"The important thing from our standpoint is to enhance Bennett's position with Hughes because Bennett gives us real access to a source of power that can be valuable, and it's in our interest to build him up."

Passed along

Less than two weeks later, John Dean passed along the information Colson had provided to H. R. Haldeman, the White House chief of staff, in a memorandum dated Jan. 26, 1971.

Haldeman responded two days later, urging Dean to "continue to keep in contact with Bob Bennett."

Bennett's first assignment for the White House — the creation of the phony campaign committees — followed shortly thereafter against this background:

In a one-paragraph, confidential memorandum to Colson, Haldeman wrote:

"Bob Dole sent me a note at the cabinet meeting regarding the milk producers and apparently he is being pressured by them. They have told him that they are unable to work out a means of getting their activity going regarding their support for us. Would you please get in touch with Dole and follow up on this?"

At the time, Robert J. Dole, who now is President Ford's running mate, had just been appointed chairman of the Republican National Committee by President Nixon.

Colson's reply

In a memorandum dated Feb. 8, 1971, Colson replied to Haldeman:

"The note which Bob Dole gave you at the cabinet meeting is the same problem I discussed with you

in your office a few weeks ago. We don't have anyone who can handle support for us from outside interest groups like the milk producers . . .

"I do have a man locally who might take this assignment on . . . I am exploring it this week and if it works I will advise you . . ."

The job of taking care of the milk producers — who were prepared to contribute \$2 million to President Nixon's re-election effort in exchange for favorable action on milk price supports — was turned over to Bennett and his CIA-connected Mullen company.

In order to make it difficult for anyone to trace the \$2 million contribution, and to avoid any federal tax problems — taxes must be paid on gifts of more than \$3,000 — it was decided that Bennett would establish dozens of campaign committees, each of which would receive \$2,500.

As Herbert W. Kalmbach, Nixon's

personal attorney and a fund-raiser for the President, later explained the paperwork, but it's necessary to meet situation to the Senate Watergate committee:

"It's an interminable amount of the gift tax problems, and this is not a scheme to avoid the tax. This is just — this has been pretty well said that a committee set up this way with an independent treasurer and an independent secretary-treasurer and a chairman, under maybe a rather form-written charter, would constitute a separate committee for the purpose of the gift tax."

Drafted by Dean

The "form-written charter" mentioned by Kalmbach was drafted by John Dean, who in a "confidential — eyes only" memorandum dated March 18, 1971, sent the proposed charter to Kalmbach and Frank DeMarco, a partner in the Kalmbach law firm who handled President Nixon's personal taxes.

Wrote Dean: "I would suggest you mark up the document if you have suggested changes and return it to me. I will then coordinate with you before a final draft is prepared."

Interestingly, at that time DeMarco also was involved in a Los Angeles real estate venture that was being financed by Hughes Aircraft Co.

So it was then that Bennett began forming committees with names like Americans United for Sensible Politics and Americans United for Political Moderation and Americans Dedicated to Clean Environment and Americans Dedicated to Stable Growth and the League of Dedicated

Voters.

In a three-page memorandum on White House stationery, dated May 21, 1971, White House aide Gordon Strachan advised Haldeman that "currently, 75 checks for \$2,500 each have been transferred into Bennett-created committees."

'Another 26 checks'

Referring to the fact that the money was coming in faster than Bennett could find chairmen and treasurers for his paper committees, Strachan continued:

"Another 26 checks could be delivered if Bennett had the committees ready."

In a later progress report to Haldeman, Strachan wrote in a memorandum dated Sept. 11, 1971, again on White House stationery, that \$232,500 had been collected from the milk producers.

"This is slightly more than one-half of the amount that should have been delivered on the commitment (\$90,000 per month)."

In addition to all the work related to the formation of the dummy committees—work that Bennett carried on at precisely the same time he was asking the White House to take care of Hughes' tax trouble — there was an assortment of curious chores, some widely publicized, some not, in the aftermath of Watergate, undertaken by Bennett or Hunt while working out of the offices of the Mullen company in 1971 and 1972.

For example:

- Hunt prepared a phony State Department cable in an effort to show that the late President John F. Kennedy was responsible for the overthrow and death of Vietnamese President Ngo Dinh Diem, and then attempted to peddle the cable to the news media.

- Bennett brought together Hunt

and Ralph Winte, a high-level security official in the Hughes organization, indicating that the two parties had a common interest. Hunt and Winte then plotted to burglarize the safe of a Las Vegas newspaper publisher, a project that was later scrapped.

- Hunt, using a disguise provided by the CIA, promised an ITT lobbyist that she "would be well taken care of" if she disclaimed authorship of a published memorandum linking a campaign contribution to the dropping of antitrust charges against ITT.

- Bennett handled the public relations arrangements in connection with the announcement that the ITT lobbyist had denounced the memoran-

dum allegedly written by her as a forgery. In the interim, ITT shredded the files of its lobbyist.

- Hunt recruited the burglars and directed the break-in and looting of the offices of a psychiatrist treating Daniel Ellsberg, the onetime State Department aide who leaked the Pentagon Papers.

- Bennett, in the weeks after the break-in at the Democratic Party's national headquarters at Watergate, submitted information to the Mullen company's case officer at the CIA concerning Hunt's involvement in the burglary. At the same time, Bennett also served as a liaison between Hunt and G. Gordon Liddy, another of the Watergate burglars.

When he was questioned during one of the legal proceedings that followed the burglary, Bennett allowed that G. Gordon Liddy had called Hunt at the Mullen company offices two days after the break-in.

Bennett then had this exchange with an attorney:

Attorney—What did you tell him?

Bennett—I told him that as far as I knew Howard was at home, that he had left the office telling me that he had planned to leave town until the concern about the Watergate had blown over and that he was going home to pack.

Attorney—Did that satisfy Mr. Liddy?

Bennett—Mr. Liddy said, "Will you get in touch with him and tell him that the signals have changed and he's to stay put." I called Mr. Hunt's home and gave him that message, whereupon he commented, "I wish they'd make up their minds."

Like follow-up

Strangely, neither the Senate Watergate committee nor the Watergate special prosecutor's office nor any other federal agency seriously pursued the interlocking relationships involving the Mullen Company, the CIA, Watergate, the Hughes organization and Bennett—who went on to become a Hughes executive.

One of those intertwining relationships involved E. Howard Hunt and his attorney.

Hunt originally joined the Mullen company in 1971, immediately after his retirement from the CIA. As the investigation into the Watergate break-in was starting up, Bennett dismissed Hunt. That was on July 2, 1972.

The very next day, Hunt hired a Washington attorney, William O. Bittman, to represent him. Coincidentally, Bittman was a partner in the law firm of Hogan and Hartson, the same firm that had been representing Howard Hughes and his medical institute for years and the same law firm that was pressing IRS to revise its regulations covering the Howard Hughes Medical

placed in a plain Kraft brown envelope and deposited at a telephone booth in the lobby of the Washington building where Bittman's law offices were located.

The messenger called Bittman from one of the pay phones in the lobby, waited and watched as Bittman came down to the lobby, picked up the envelope containing the cash, and returned to his law office. The money had been supplied by Herbert W. Kalmbach, President Nixon's fund-raiser.

As Hunt recalled the arrangements for the payment when testifying before the Senate Watergate committee:

"Some days later (after July 3, 1972), Mr. Bittman reported to me in a letter and also verbally that he had received the sum of \$25,000 as further retainer. He indicated the money had come to him anonymously and it had been delivered to his office, that it was to be used in my behalf and considered as a retainer."

Later in the year, another envelope, this one containing \$20,000 in cash, was delivered to Bittman's office, and still later an envelope containing \$15,000 in cash was placed in the mailbox at Bittman's home, according to Hunt.

Meeting with Hunt

And still later, when Hunt was about to be sentenced for his part in the Watergate burglary—but still before much of the Watergate story had been disclosed—Paul O'Brien, an attorney representing the Committee to Re-Elect the President (CREEP), was summoned to a meeting with Hunt in Bittman's law offices.

At the meeting, Hunt told O'Brien, according to testimony before the Watergate grand jury, that he had done "seamy things" for the White House and that unless he received \$130,000 he might have to review his options.

Shortly thereafter, Hunt received a package containing \$75,000 in cash. In all, Hunt said his attorney received \$156,000 in legal fees.

In August 1973, well after he had received the \$156,000 in legal fees, Bittman withdrew from Hunt's case.

At the time, Hunt was quoted as saying that his lawyer quit at the urging of Watergate Special Prosecutor Archibald Cox.

Archibald Cox is the brother of Maxwell Cox, a partner in the New York and Los Angeles law firm of Davis and Cox—the law firm which until Hughes' death was the law firm most deeply involved in the billionaire recluse's business dealings.

NEXT: How the IRS protects the Howard Hughes organization.

Institute.

Shortly thereafter, Bittman received his first retainer on Hunt's account.

The money, \$25,000 in cash, was